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RUEHNE/AMEMBASSY NEW DELHI 2598  
RUEHBUL/AMEMBASSY KABUL 8006  
RUEHBI/AMCONSUL MUMBAI 3734  
RUEHLH/AMCONSUL LAHORE 4508  
RUEHKP/AMCONSUL KARACHI 8568  
RUEHPW/AMCONSUL PESHAWAR 3142  
RUEAIIA/CIA WASHDC  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
RHMFISS/CDR USCENCOM MACDILL AFB FL  
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SUBJECT: ECONOMIC ELECTION ISSUES; LOAD-SHEDDING AND WHEAT SHORTAGE

¶1. SUMMARY: Against the backdrop of the Bhutto assassination, recent civil unrest, and the upcoming elections, Pakistan now confronts power shortages and increasing domestic wheat prices. There are signs that the electricity shortage may abate by the end of January, but eight hours per day of "load-shedding" dominates the news. More analysis of both these issues will be provided in septel. We expect increasing criticism of the government. END SUMMARY

¶2. The GOP announced Jan 3 countrywide, eight-hour a day load-shedding (the temporary halt in electricity production by power plants) would continue until Jan 25. According to National Power Control Center, Pakistan's total demand for electricity is 12000 MW and the country currently only produces 7500 MW, falling 38% short. The primary reason for the shortage was maintenance repairs on hydroelectric plants, causing a 25% deficit. Political unrest and cold weather added another 13% deficit to the problem. Independent Power Producers (IPPs) say they have two to five days stock of fuel left on hand which may complicate the problem. Maintenance is expected to end on hydroelectric facilities Jan 31 and power plants will stock up on fuel throughout this month, which may reduce the power deficit to as little as 14-22 percent of total demand.

¶3. Domestic wheat prices have risen dramatically in recent months, increasing fifty percent in the Northwest Frontier Province alone. Pakistan needs to produce over 23 million metric tons of wheat per year to be self sufficient. Although the country produced a record 23.5 million metric tons of wheat in 2006, cross border trade and smuggling pushed Pakistan's wheat stockpile below the 23 million metric mark, prompting price increases. 2007 wheat production fell below 23 million metric tons, causing a further spike in the domestic cost of wheat.

¶4. The cost of domestic flour has traditionally been half that of imported flour, in part because of the GOP's domestic wheat support program. Pakistan's "issue price", the amount paid by millers to purchase government-owned wheat stocks, is less than USD 200 per ton, compared with USD 260 in India and an average world price close to USD 500 per ton. As a result of the price differential, exports have increased. The GOP could reduce domestic demand and discourage smuggling by raising the official wheat "issue price". With general elections scheduled for Feb 18, governments -- both federal and provincial -- are eager to bring down the cost of basic commodities and are unlikely to raise the wheat issue price. High food prices are frequently cited in polls as the middle and lower classes' primary concern.

¶5. COMMENT: While neither economic issue has reached a crisis

stage, the issues may play out heavily during the next six weeks of campaigning before the elections Feb 18. We will continue to monitor the situations as they develop. More will be reported on both the energy and wheat issues in a SEPTEL. END COMMENT.

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